



STATE OF TENNESSEE

DEPARTMENT OF COMMERCE AND INSURANCE

TENNCARE DIVISION

and

THE OFFICE OF THE COMPTROLLER OF THE TREASURY

DIVISION OF STATE AUDIT

MARKET CONDUCT EXAMINATION

and

LIMITED SCOPE FINANCIAL AND COMPLIANCE EXAMINATION

OF

DORAL DENTAL OF TENNESSEE, LLC

MEQUON, WISCONSIN

**FOR THE PERIOD OCTOBER 1, 2002,
THROUGH JULY 31, 2003**

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DATE: August 19, 2004

Fieldwork for a Limited Scope Financial and Compliance Examination and Claims Processing Market Conduct Examination of Doral Dental of Tennessee, LLC, Mequon, Wisconsin, was completed October 23, 2003. The report of this examination is herein respectfully submitted.

I. FOREWORD

This report reflects the results of a market conduct examination “by test” of the claims processing system of Doral Dental of Tennessee, LLC (“Doral”). Further, this report reflects the results of a limited scope examination of the financial statement account balances as reported by Doral. This report also reflects the results of a compliance examination of Doral’s policies and procedures regarding contractual requirements. A description of the specific tests applied is set forth in the body of this report and the results of those tests are included herein.

II. PURPOSE AND SCOPE

A. Authority

This examination of Doral was conducted jointly by the TennCare Division of the Tennessee Department of Commerce and Insurance (TDCI) and the Office of the Comptroller of the Treasury, Division of State Audit (Comptroller) under the authority of sections E.14. and E.28. of the Contract between the State of Tennessee and Doral. In addition, Tenn. Code Ann. § 56-6-404 permits TDCI access to books and records for the purpose of examination, audit and inspection.

Doral is licensed as a third party administrator (TPA) in the state and participates by contract with the state as the sole dental benefits manager for the TennCare program. The TennCare program is administered by the TennCare Bureau within the Tennessee Department of Finance and Administration. Doral is compensated by the TennCare Bureau for all administrative services based upon a fixed fee per member per month. Doral is not at financial risk for the provision of covered dental benefits to enrollees.

B. Areas Examined and Period Covered

The market conduct examination focused on the claims processing functions and performance of Doral for its administration of the dental benefits component of TennCare program. The testing included an examination of internal controls surrounding claims adjudication, claims processing system data integrity, notification of claims disposition to providers and enrollees, and payments to providers.

The limited scope financial examination focused on selected balance sheet accounts as reported by Doral on its Financial Statements attested by a company officer for the year ended December 31, 2002, and the Quarterly Statements submitted to the TennCare Bureau for the period January 1, 2003, through June 30, 2003.

The limited scope compliance examination focused on the review of Doral's provider appeals procedures, provider agreements and subcontracts and the demonstration of compliance with Federal Title VI of the 1964 Civil Rights Act.

C. Purpose and Objective

The purpose of the examination was to obtain reasonable assurance that Doral's administration of the TennCare dental benefit was administered in accordance with the Contract, state statutes and regulations concerning TPA operations. The examination also provided reasonable assurance that applicable TennCare enrollees received uninterrupted delivery of dental care services on an ongoing basis.

The objectives of the examination were to:

- Determine whether Doral met certain contractual obligations under the Contract and whether Doral was in compliance with the regulatory and financial requirements for TPAs set forth in Tenn. Code Ann. § 56-6-401 *et seq.*;
- Determine whether Doral properly adjudicated claims and made payments to providers in a timely manner;
- Determine whether Doral had implemented an appeal system to reasonably resolve appeals from TennCare providers in a timely manner.

III. PROFILE

A. Administrative Organization of Doral

Doral Dental of Tennessee, LLC, a wholly-owned subsidiary of Doral Dental USA, LLC, was chartered as a for-profit limited liability company (LLC) in the State of Tennessee on August 20, 2002, for the purpose of administering managed dental care services to individuals participating in the State's TennCare Program. An LLC has the limited liability of a corporate entity and is taxed at the federal level like a partnership or a sole proprietorship depending on the number of people with an equity interest.

The officers and board of directors for Doral at December 31, 2002, were as follows:

Officers for Doral

Ronald Brummeyer, President
Gregory J. Borca, CEO
Lisa Sweeney, CFO

Board of Directors for Doral

Craig R. Kasten, Chairman	Ronald Brummeyer
Gregory J. Borca	Wendy K. Carerros
Lisa Sweeney	Darrin Haehle

B. Brief Overview

Prior to becoming the Dental Benefit Manager (DBM) for TennCare, Doral contracted with many of the TennCare HMOs to process dental claims. Effective October 1, 2002, TennCare contracted with Doral as the DBM for the TennCare program. Effective October 11, 2002, TDCI granted Doral a certificate of authority to operate as a TPA.

C. Subsequent Event

On January 23, 2004, Doral Dental USA, LLC, notified the TennCare Bureau that DentaQuest Ventures, Inc., had signed a definitive agreement that would make Doral a wholly-owned division of DentaQuest Ventures, Inc. Doral noted that the change in ownership will have virtually no impact upon Doral's existing structure of day-to-day operations. The audited financial statements for the year ended December 31, 2003, and the four month period ended December 31, 2002 prepared by Deloitte and Touche, LLP, noted that on April 2, 2004, the assets of the Doral Dental USA, LLC, were purchased and liabilities were assumed by DentaQuest Ventures, Inc.

IV. PREVIOUS EXAMINATION FINDINGS

This is the initial examination of Doral by both TDCI and the Comptroller's office.

V. SUMMARY OF PERTINENT FACTUAL FINDINGS

The summary of current factual findings is set forth below. The details of testing as well as management comments to each finding can be found in Sections VI, VII and VIII of this examination report.

A. Summary of Deficiencies – Financial

Doral did not return interest earned from the deposit of state funds held for provider payments from the inception date of the Contract to examination fieldwork date. Doral agreed to reimburse the state for previous interest earned and reduce future claims funding requests for interest earned as required by section A.22.1.b of the Contract. (See Section VI. B.)

B. Summary of Deficiencies – Claims Processing

TDCI recommends that for the determination of the claims payment accuracy percentage, Doral should utilize claims sampling techniques to verify and supplement the results of Doral's current methodology. The claims sampling techniques should include the selection of a statistically valid sample from the entire claims population.
(See Section VII.C.)

C. Summary of Deficiencies - Compliance

There were no deficiencies noted during compliance testing.
(See Section VIII.)

VI. DETAIL OF TESTS CONDUCTED – FINANCIAL ANALYSIS

A. Financial Analysis

As a TPA licensed in the State of Tennessee, Doral is annually required to renew its license with TDCI. Doral submits with its renewal evidence of a 100% fidelity bond with a deductible not to exceed 10% of net worth, and financial statements current within six months attested to by a company officer. The department uses the information filed in these reports to determine if Doral meets the minimum requirement for licensure as TPA.

Through the Contract with the TennCare Bureau, Doral provides the TennCare Bureau copies of its Annual Audited Financial Statements no later than ninety (90) days after the end of the calendar year and Quarterly Income Statements no later than thirty (30) days after the end of each calendar quarter. Additionally, the Contract requires Doral to furnish a performance bond in the amount equal to \$2,000,000 guaranteeing full and faithful performance of all undertakings and obligations under the Contract for the initial Contract term and all extensions thereof. The bond shall be in the manner and form prescribed by the State and must be issued through a company licensed to issue such a bond in the State of Tennessee. In lieu of a performance bond, a surety deposit in the sum of \$2,000,000 may be substituted if

approved by the State prior to its submittal.

Additionally, interest generated from the deposit of TennCare funds held by Doral for provider payments are the property of the state as well as subrogation recoveries collected by Doral outside of the claims processing system.

As of December 31, 2002, Doral reported on the Audited Financial Statements total assets of \$2,101,930, total liabilities of \$2,004,526, and total equity of \$97,404. Doral reported net income of \$97,404 for the period October 1, 2002, through December 31, 2002.

As of June 30, 2003, Doral reported on the Quarterly Balance Sheet total assets of \$2,491,549, total liabilities of \$2,387,891, and total equity of \$103,657. Doral reported on Quarterly Income Statement for the period January 1, 2003, to June 30, 2003, net income of \$6,252.

B. Interest Earned

As previously noted, interest generated from the deposit of funds held for provider payments are the property of the state. Doral did not return interest earned from the deposit of state funds held for provider payments from the inception date of the Contract to examination fieldwork date. Doral agreed to reimburse the state for previous interest earned and reduce claims funding requests for interest earned in the future as required by section A.22.1.b of the Contract.

Management's Comment:

Doral concurs with TDCI's finding that interest earned from the deposit of state funds held for provider payments is the property of the State. As a result, Doral has returned interest originally held.

C. Performance Bond or Surety Deposit

Doral has provided to the State of Tennessee a surety deposit of \$2,000,000 in lieu of a performance bond as required by Section E.11. of the Contract.

D. Third Party Recoveries and Subrogation Recoveries

As required in Section A.22.c of the Contract with the TennCare Bureau, Doral has netted third party recoveries captured on its claims processing system before submission of provider payment funding requests to the TennCare Bureau. Subrogation recovery amounts collected by Doral outside the claims processing system also reduce provider payment funding requests to the TennCare Bureau.

E. Administrative Expenses and Related Party Transactions

As previously noted, during the examination period Doral was a wholly-owned subsidiary of Doral Dental USA, LLC (Parent). An administrative services agreement exists between Doral and the Parent where the Parent has agreed to provide certain administrative, consulting and management services to Doral. The Parent receives as compensation 100% of net premiums paid to Doral. The methods to allocate expenses related to the compensation paid to the Parent were reviewed. Where appropriate, expenses identified directly for the Tennessee operations have been directly charged to Doral. This would include salaries of employees devoted 100% to Tennessee operations, outreach expenses, and lease expense for an office in Tennessee. Additionally, personnel, facilities, and operational expenses by Doral are shared with other plans and subsidiaries of the Parent. The Parent utilizes a variety of methods to allocate shared expenses to various subsidiaries. The following represents the four cost centers of the Parent and the method of allocation charged to Doral:

- Claims processing cost - number of claims for each plan
- Member service cost - number of member calls received by each plan
- Authorization cost - number of authorizations for each plan
- Complaints and grievance cost - number of complaints handled for each plan

No unusual items were noted in the review of administrative expense for Doral.

F. Doral Dental USA, LLC, and Subsequent Events

The consolidated financial statements for the Parent of Doral reported a member's deficit of \$6,080,951 and \$7,655,669 for the years ended December 31, 2002, and 2001, respectively. TDCI was concerned that the Parent for Doral reported a member's deficit. Although, Doral has reported positive net equity, the Parent provides to Doral the personnel, overhead, facilities and information systems to administer the Contract.

TDCI requested management to provide projections of the Parent's net income and equity to indicate when the member deficit would be eliminated. The Quarterly Balance Sheet as of March 31, 2004, reported that member's deficit had been reduced to \$1,937,681 which was better than projections provided to TDCI during fieldwork. Furthermore as previously noted, on April 2, 2004, the assets of the Doral Dental USA, LLC, were purchased and liabilities were assumed by DentaQuest Ventures, Inc.

VII. DETAIL OF TESTS CONDUCTED – CLAIMS PROCESSING SYSTEM

A. Time Study of Claims Processing

The purpose of conducting a time study of claims is to determine whether Doral pays claims promptly within the time frames set forth in Tenn. Code Ann. § 56-32-226(b)(1). Section A.13.3. of the Contract between Doral and TennCare requires Doral to comply with Tenn. Code Ann. § 56-32-226(b)(1). The statute mandates the following prompt pay requirements:

The health maintenance organization shall ensure that ninety percent (90%) of claims for payments for services delivered to a TennCare enrollee (for which no further written information or substantiation is required in order to make payment) are paid within thirty (30) days of the receipt of such claims. The health maintenance organization shall process, and if appropriate pay, within sixty (60) days ninety-nine point five percent (99.5%) of all provider claims for services delivered to an enrollee in the TennCare program.

(A) "Pay" means that the health maintenance organization shall either send the provider cash or cash equivalent in full satisfaction of the allowed portion of the claim, or give the provider a credit against any outstanding balance owed by that provider to the health maintenance organization.

(B) "Process" means the health maintenance organization must send the provider a written or electronic remittance advice or other appropriate written or electronic notice evidencing either that the claim had been paid or informing the provider that a claim has been either partially or totally "denied" and specify all known reasons for denial. If a claim is partially or totally denied on the basis that the provider did not submit any required information or documentation with the claim, then the remittance advice or other appropriate written or electronic notice must specifically identify all such information and documentation.

TDCI had previously requested data files from Doral containing all claims processed during the months of July 2003 and October 2003. Even though October 2003 is not during the examination period, it is presented because examination fieldwork was scheduled during October 2003. The data was tested in its entirety for compliance with the prompt pay requirements of Tenn. Code Ann. § 56-32-226(b)(1). Because these tests were performed on all claims processed in these months, no projection to the population is needed. Listed below are the results of these analyses:

	Within 30 days	Within 60 days	Compliance
T.C.A. Requirement	90%	99.5%	
July 2003	96.09%	100.0%	Yes
October 2003	99.86%	100.0%	Yes

Doral processed claims timely in accordance with Tenn. Code Ann. § 56-32-226(b)(1) and Section A.13.3 of the Contract for the months of July 2003 and October 2003.

B. Determination of the Extent of Test Work of the Claims Processing System

Several factors were considered in the determination of the extent of test work to be performed in the testing of Doral's claims processing system.

The following items were reviewed to determine the risk that Doral had not properly processed claims:

- Prior examination findings related to claims processing
- Complaints on file with TDCI related to accurate claims processing
- Results of prompt pay testing by TDCI
- Results reported on the claims payment accuracy report submitted to TennCare
- Review of the preparation of the claims processing accuracy report
- Review of internal controls (including the testing of those controls by Doral)

No significant weaknesses were noted in these reviews; thus, risk was determined to be low.

C. Claims Payment Accuracy Reporting

The review of the claims processing accuracy report included an interview with internal control staff to determine the policies, procedures, and sampling methodologies surrounding the preparation of the claims payment accuracy report. These interviews were followed by a review of the supporting documentation used to prepare the payment accuracy report. This review included verification that the number of claims reviewed constituted an adequate sample to represent the population. The amounts from the supporting documentation traced directly to the actual report filed with TennCare.

The Contract between Doral and the TennCare Bureau does not define the methodology to be utilized in the determination of the claims payment accuracy

percentage. For the reporting of monthly claims payment accuracy percentages, Doral has identified specific adjustments codes which indicate processing error identified either by internal review by claims adjudication staff or claims resubmission. The total of the selected adjustment codes is compared to the number of claims processed for the month reported and a claims payment accuracy percentage is calculated. Although the methods by Doral have generated a percentage that reflects all known processing errors, TDCI recommends Doral supplement this method with claims sampling techniques. This would include the random selection of claims from a statically valid sample size for the entire number of claims processed each month. Additionally, a list of attributes to be tested would be completed for each claim tested. A claims reviewer which reports to the appropriate level of management should complete the claims sampling test work.

Management's Comment:

Doral concurs that the utilization of claims sampling techniques would enhance the current methodology. Although the contract is silent on this methodology, Doral is exploring appropriate techniques to supplement the existing process.

D. Claims Selected For Testing

Based on results from the review of internal controls, 60 claims were randomly selected for testing from a data file of paid and denied claims for the month of July 2003. For each claim processed, the data file included the date received, date paid, the amount paid and, if applicable, an explanation for denial of payment.

To ensure that all claims in the data file included all claims processed in the month selected for testing, the total amount paid per data file was reconciled to the triangle lag and to the general ledger for the respective accounting period to within an acceptable level.

E. Comparison of Actual Claim with System Claim Data

The purpose of this test is to ensure that the information submitted on the claim was entered correctly in Doral's claims processing system. Original hard copy claims were requested for the 60 claims tested.

No discrepancies were noted between the information printed on the tested claims and the data recorded in Doral's system.

F. Adjudication Accuracy Testing

The purpose of adjudication accuracy testing is to determine if claims selected were properly paid, denied, or rejected.

All the 60 claims were properly processed as paid, denied or rejected.

G. Price Accuracy Testing

The purpose of price accuracy testing is to determine whether payments for specific procedures are in accordance with the system price rules assigned to providers, whether payments are in accordance with provider contracts, and whether amounts are calculated correctly.

All 60 were paid and priced in accordance with the contracted rates.

H. Withhold Testing

The purpose of “withhold testing” is to determine whether amounts withheld from provider payments are in accordance with the provider contracts and are accurately calculated. Doral’s contracts with providers does not apply withhold to provider payments.

I. Copayment and Annual Out-of-Pocket Testing

The purpose of testing copayments is to determine if enrollees are subject to copayments for certain procedures, if copayments and annual out-of-pocket limits have not been exceeded, and if copayments are accurately calculated in accordance with section A.1.3 the Contract.

Three claims from the original 60 claims selected for testing were subject to copayments, and were tested for proper application of deductibles and co-payments.

- For all 3 Doral claims, copayments were properly applied.
- The accumulation of the enrollees’ out-of-pocket costs was computed accurately for all claims tested. None of the enrollees selected exceeded the out-of-pocket limits.

J. Explanation of Benefits (“EOB”) Testing

The purpose of EOB testing is to determine whether uninsured and uninsurable members (non-Medicaid) who are subject to copayments are provided an EOB. Doral is not required by Contract to send EOBs to enrollees.

K. Remittance Advice Testing

The purpose of remittance advice testing is to determine whether remittance advice sent to the provider accurately reflect the processed claim information in the system.

The examiners requested remittance advices for 30 of the 60 claims to compare the payment and/or denial reasons per the claims processing system to the information communicated to the providers. No differences were noted between the claims payment per the claims processing system and the information communicated to the providers.

L. Analysis of Cancelled Checks

The purpose of analyzing cancelled checks is to (1) verify the actual payment of claims by Doral, and (2) determine whether a pattern of significant lag times exists between the issue date and the cleared date on the checks examined.

The examiners requested cancelled checks for 10 of the 60 claims tested. All 10 cancelled checks were provided by Doral. The delay between the check date and the date deposited by the provider were either determined acceptable, or for unusual time lag variances, the variances were explained after contacting the provider directly.

M. Suspended/Unprocessed Claims Testing

The purpose of testing suspended claims is to determine the existence of claims that have been suspended or pended by Doral, the reasons for suspending the claims, the number of suspended claims that are over 60 days old, and whether a potential material unrecorded liability exists. Doral provided a pended claims report with its July 2003 prompt pay data file. Doral reported a total of 31,844 claims of which none were over 60 days old. No unrecorded liability exists since Doral is not at financial risk for the cost of dental benefits.

N. Electronic Claims Capability

Section A.13.1. of the Contract states, "The CONTRACTOR shall have in place, an automated claims processing system capable of accepting and processing paper claims and claims submitted electronically" Section A.13.1. of the Contract requires Doral to comply with the Health Insurance Portability and Accountability

Act, Title II (“HIPAA”). HIPAA requires that all health plans be able to transmit and accept all electronic transactions in compliance with certain standards as explained in the statute by October 15, 2002. The U.S. Department of Health and Human Services extended the deadline until October 15, 2003, for health plans requesting additional time. Failure to comply with the standards defined for the transactions listed can result in the assessment of substantial penalties.

Doral has implemented the necessary changes to process claims per the standards outlined in the HIPAA statutes. As of examination fieldwork, Doral is processing claims under these standards for some of their providers.

VIII. REPORT OF OTHER FINDINGS AND ANALYSES – COMPLIANCE TESTING

A. Provider Complaints

No deficiencies were noted in the review of provider complaint resolutions. Using Doral’s definition of complaints, five complaints were selected from Doral’s complaint log. For all complaints, Doral was able to provide documentation that the provider had been notified of Doral’s decision regarding the complaint and of the ultimate disposition of the complaint.

B. Provider Manual

The provider manual outlines written guidelines to providers to assure that claims are processed accurately and timely. In addition, the provider manual informs providers of the correct procedures to follow in the event of a disputed claim. No deficiencies were noted in the review of Doral’s provider manual.

C. Provider Agreements

Five provider contracts were selected to determine if they contained all the language required by section A.11 of the Contract. No discrepancies were noted. A review of selected provider contracts on file with TDCI revealed that Doral’s provider contracts had been approved.

D. Subcontractors

As previously discussed, an administrative services agreement between Doral and the Parent provides for all of the major administrative components of its Contract with the TennCare Bureau. No other subcontract for the major components of the Contract exists.

E. Title VI Compliance Testing

Section A.19.7 and attachment V of the Contract require Doral to demonstrate compliance with Federal Title VI of the 1964 Civil Rights Act that prohibits discrimination based on race, color or national origin. Based on discussions with various Doral staff and a review of policies and related supporting documentation, Doral was in compliance with reporting requirements of attachment V of the Contract.

The examiners hereby acknowledge the courtesy and cooperation of the officers and employees of Doral.